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WHY SALES TAX?

HOW WILL TEMPORARILY RAISING SALES TAX HELP IDAHOANS?

The State of Idaho and every other state are facing budget shortfalls that could exceed a total of \$90 billion for FY03 and FY04. In Idaho, we've already cut nearly \$200 million and face an additional shortfall of \$200 million just to maintain current operations. Without raising revenue, Idahoans would see basic services dramatically cut or eliminated, including education, Medicaid, and public safety.

Why sales tax?

A temporary sales tax generates an immediate and reliable revenue stream that will bring stability to the state budget until the economy fully recovers.

Won't this "temporary" tax increase really be permanent?

No. The Governor will not sign any legislation which raises the sales tax that does not expire by June 30, 2006. This means that while the tax is in place, government must exercise restraint and limit growth in spending.

Why raise sales tax by 1.5 cents?

A temporary 1.5 cent increase will fill our \$200 million budget gap until the economy recovers. It will also allow the state to begin replacing portions of the money borrowed from the state rainy-day fund, the tobacco settlement account, and the Permanent Building Fund deferred maintenance projects. Rebuilding these reserves is important to retain the state's high credit rating and provide a buffer against future economic hardship.

The sales tax is regressive and hurts the poor.

To help offset the potential impacts on lower income Idahoans, the Governor has proposed a permanent increase to the Grocery Tax Credit.

Isn't there an alternative to the sales tax?

Idaho's needs are immediate and sales tax provides that immediacy. An increase in corporate or individual income tax would not generate additional revenue for at least 16 months. Additionally, because of a sluggish economy, layoffs, corporate losses, and a virtual absence of capital gains, an increase in income tax rates would not guarantee increased revenue streams. Sales tax has been stable throughout the recession. Until businesses become profitable again, income tax will continue to underperform.

General Fund Update

As of December 31, 2002

<u>Revenue Source</u>	<u>\$ Millions</u>		
	<u>FY03 Executive Estimate¹</u>	<u>DFM Predicted to Date</u>	<u>Actual Accrued to Date</u>
Individual Income tax	886.2	410.9	406.7
Corporate Income tax	86.0	43.1	41.8
Sales Tax	678.9	356.0	357.5
Product Taxes ¹	22.1	11.3	11.1
Miscellaneous	99.8	38.1	38.8
TOTAL GENERAL FUND²	1,773.1	859.4	856.0

¹ Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of January 2003

From the 2003 "January Idaho Outlook" -- Division of Financial Management

Sales tax continues to outperform expectations and has proven to be a stable revenue stream to the State General Fund.